S&P Dow Jones Indices

A Division of S&P Global

TalkingPoints

The iBoxx ChinaBond Asian High Yield Index

Kangwei Yang
Director, Fixed Income Indices
S&P Dow Jones Indices

The iBoxx ChinaBond Asian High Yield is designed to reflect the performance of high yield bonds from Asian issuers, denominated in USD, CNY, and SGD. This index is a joint initiative between S&P Dow Jones Indices (S&P DJI) and ChinaBond Pricing Center Co., Ltd. (CBPC). The index seeks to combine the bond valuation data and domestic market expertise of CBPC with S&P DJI's award-winning global fixed income index expertise that provides investors with accurate and objective indices to assess the performance of the respective underlying markets and investments.

1. Why was the iBoxx ChinaBond Asian High Yield launched?

S&P DJI: Historically, the Asian high yield market has been mostly dedicated to the U.S. dollar (USD) space, where Real Estate bonds from Chinese issuers made up close to half of the market prior to the beginning of China's Real Estate shift in 2021. Since then, the aggregate market size of Asian USD high yield bonds has declined significantly, as represented by iBoxx USD Asia ex-Japan High Yield 1+ (see Exhibit 1).[1] The declining market size presents challenges for Asian high yield fund managers, including the ability to continue to allocate and find liquidity in the remaining Asian high yield bonds in the index.

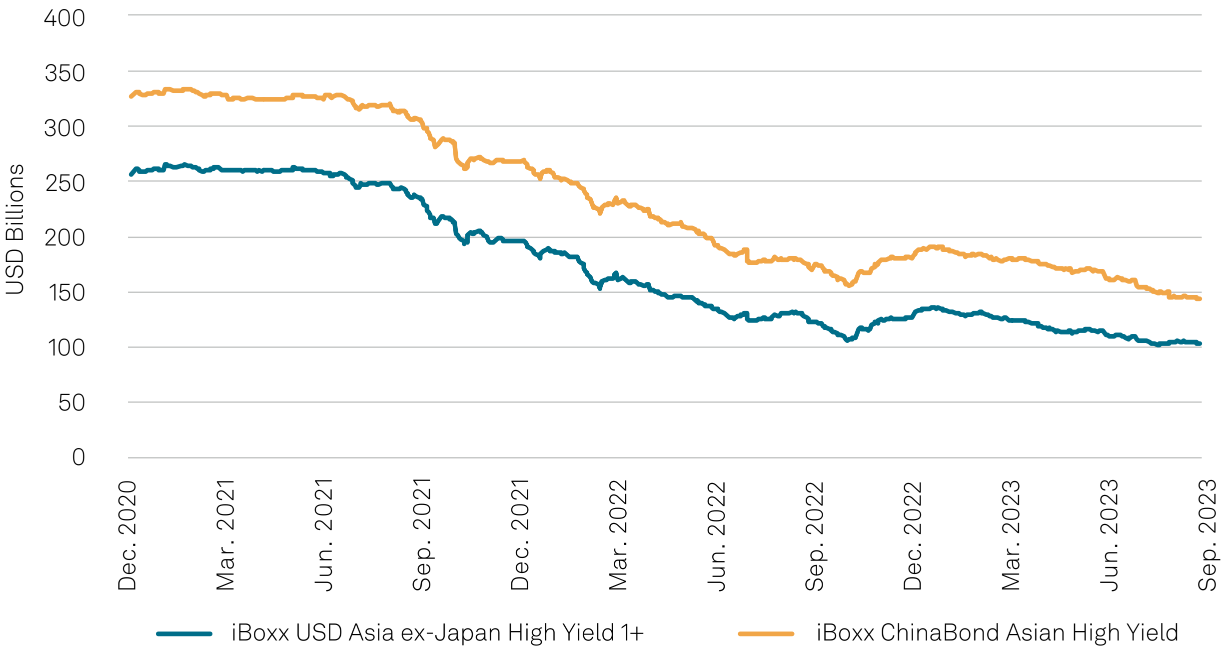
At the same time, Asian local currencies have continued to gather interest from investors as a diversifier from traditional hard currency exposures. Asian local currency bond markets, as a whole, have also grown in size and depth over the past few years. These factors drove us to evaluate the accessible local currency bond markets with significant high yield exposure, and as a result, we partnered with CBPC to develop the iBoxx ChinaBond Asian High Yield, which tracks Asian-issued USD, CNY, and SGD bonds. As seen in Exhibit 1, with the inclusion of Asian local currency bonds, the iBoxx ChinaBond Asian High Yield consistently provided a larger market size (capacity) compared to the iBoxx USD Asia ex-Japan 1+ from Dec. 31, 2020 to Sept. 30, 2023.

The goal of this index is to provide a measure for investable high yield bonds in the Asian market beyond USD-denominated bonds, as well as to give a broader perspective of the Asian high yield space as local bond markets continue to develop in the years to come. Exhibit 2 shows the breakdown of bonds in the index by currency, as of Sept. 30, 2023.

S&P DJI would like to thank ChinaBond Pricing Center Co., Ltd. (CBPC) for their contribution to this report.

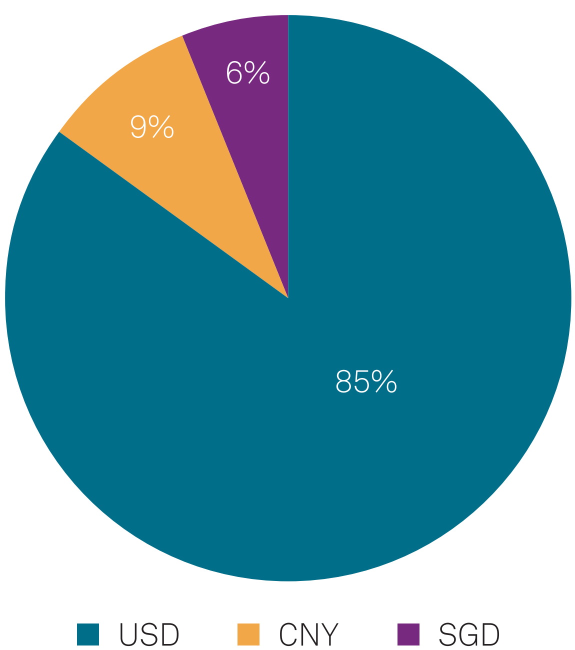
[1] The iBoxx USD Asia ex-Japan High Yield 1+ was chosen as a comparator in this study because the index's minimum remaining time to maturity of one year for bond eligibility is similar to that of the iBoxx ChinaBond Asian High Yield.

Exhibit 1: Market Size of the iBoxx ChinaBond Asian High Yield versus the iBoxx USD Asia ex-Japan High Yield 1+



Source: IHS Markit, part of S&P Global. Data as of Sept. 30, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 2: Currency Breakdown of the iBoxx ChinaBond Asian High Yield



Source: IHS Markit, part of S&P Global. Data as of Sept. 30, 2023. Chart is provided for illustrative purposes.

2. What are some of the considerations in the methodology of the iBoxx ChinaBond Asian High Yield?

S&P DJI: When we designed the index, the intention was to produce a view of the Asian high yield market that investors were familiar with (i.e., USD bonds), yet, at the same time, expand that view to introduce elements of local currency exposure to broaden the index universe.

As a result, from an index methodology perspective, we have implemented an overall issuer cap of 2%. Additionally, non-USD issuers are subject to a cap of 0.5% of the overall index. This approach seeks to address three concerns. First, it aims to minimize accessibility issues to local currency bonds for investors who might be concerned about liquidity. Second, for index funds, this rule allows investors to gradually become accustomed to local currency bond markets without a need to purchase large amounts of local currency bond exposure instantaneously. Third, this serves to provide greater diversification across issuers in the index.

Determining which local markets would be eligible for inclusion into the index was another consideration. From that perspective, we looked at the general liquidity, accessibility, and size of the local markets, especially those with larger high yield issuances. As a result, we have had CNY and SGD local markets represented in the index from the onset. In the long term, the aim is to periodically review the eligibility of other Asian local currency markets as regional bond markets continue to grow.

Exhibit 3: Top 10 Issuers by Market Size in the Index

Ticker	Weight (%)
ICBCAS	2.0
NWDEVL	2.0
PKSTAN	2.0
GRNKEN	2.0
WYNMAC	2.0
SANLTD	2.0
NSANY	2.0
SOFTBK	2.0
HRINTH	2.0
MPEL	2.0

Source: IHS Markit, part of S&P Global. Data as of Sept. 30, 2023. Table is provided for illustrative purposes.

3. What are the key characteristics of this index?

S&P DJI: To showcase the characteristics of this index, we can compare the iBoxx ChinaBond Asian High Yield with the iBoxx USD Asia ex-Japan Asian High Yield 1+.

The top five sectors of the iBoxx ChinaBond Asian High Yield and iBoxx USD Asia ex-Japan High Yield 1+ made up the majority of the underlying market weights of these indices, at 68.3% and 71.6%, respectively, as of Sept. 30, 2023. However, sectors were more equally distributed across the iBoxx ChinaBond Asian High Yield compared to the iBoxx USD Asia ex-Japan High Yield 1+.

Exhibit 4: Sector Breakdown of the iBoxx ChinaBond Asian High Yield and iBoxx USD Asia ex-Japan High Yield 1+

Sector	iBoxx ChinaBond Asian High Yield (%)	iBoxx USD Asia ex-Japan High Yield 1+ (%)	Difference (%)
Core Financials	17.17	25.07	-7.90
Financial Services	15.45	9.35	6.10
Real Estate	13.49	10.60	2.89
Consumer Services	12.07	13.59	-1.52
Utilities	10.10	12.97	-2.87
Basic Materials	7.49	7.28	0.20
Industrials	4.88	4.47	0.41
Sovereigns	4.84	7.54	-2.70
Telecommunications	4.55	2.04	2.51
Consumer Goods	3.98	1.43	2.55
Energy	3.05	4.19	-1.14
Technology	2.03	0.90	1.13
Public Utilities	0.50	0.00	0.50
Agencies	0.41	0.56	-0.15

Source: IHS Markit, part of S&P Global. Data as of Sept. 30, 2023. Table is provided for illustrative purposes.

As of Sept. 30, 2023, the iBoxx USD Asia ex-Japan High Yield 1+ offered a slightly higher yield and lower annual modified duration as compared to the iBoxx ChinaBond Asian High Yield. However, the accessible bond universe was substantially larger in the iBoxx ChinaBond Asian High Yield, with 65 additional issuers and 214 more bonds. The capped market size (due to the issuer caps) of the iBoxx ChinaBond Asian High Yield was also larger than the uncapped market size of the iBoxx USD Asia ex-Japan High Yield 1+.

Exhibit 5: Index Profile of the iBoxx ChinaBond Asian High Yield and iBoxx USD Asia ex-Japan High Yield 1+

Sector	Number of Issuers	Number of Bonds	Market Value (USD Billion)	Annual Yield (%)	Annual Modified Duration (Years)
iBoxx ChinaBond Asian High Yield	193	445	144.11	11.82	2.53
iBoxx USD Asia ex-Japan High Yield 1+	128	231	103.80	14.38	2.29

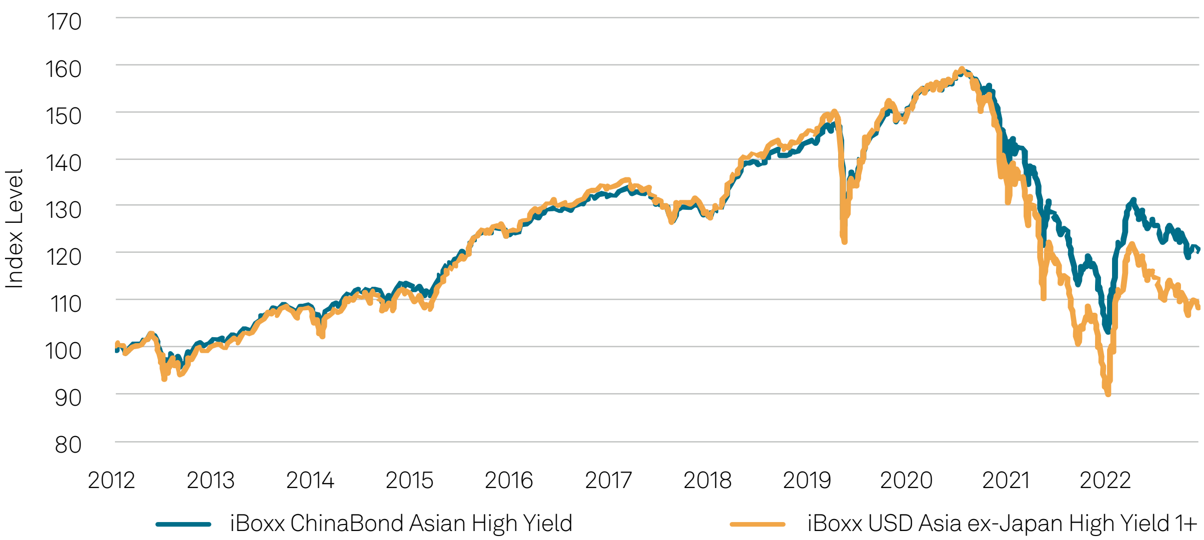
Source: IHS Markit, part of S&P Global. Data as of Sept. 30, 2023. Past performance is no guarantee of future results.
Table is provided for illustrative purposes.

4. How has the performance of the iBoxx ChinaBond Asian High Yield compared with traditional Asian USD high yield bond indices over recent years?

S&P DJI: From Dec. 31, 2012, to Sept. 30, 2023, the iBoxx ChinaBond Asian High Yield returned 1.73% on an annualized basis, compared to 0.77% for the iBoxx USD Asia ex-Japan High Yield 1+. From Sept. 30, 2021, at the start of China's Real Estate shift, to Sept. 30, 2023, the iBoxx ChinaBond Asian High Yield lost 10.47% (annualized), outperforming the iBoxx USD Asia ex-Japan High Yield 1+ (-13.99% annualized).

The relative outperformance since late 2021 was largely attributed to the issuer capping applied in the iBoxx ChinaBond Asian High Yield, which provided insulation on losses incurred by large issuers, as well as higher local currency returns (in USD unhedged terms) compared to the USD component of the index.

Exhibit 6: Performance of the iBoxx ChinaBond Asian High Yield versus the iBoxx USD Asia ex-Japan High Yield 1+



Source: IHS Markit, part of S&P Global. Data as of Sept. 30, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

5. How are the bond valuations from the CBPC used in this index?

CBPC: CBPC is a wholly owned subsidiary of the China Central Depository & Clearing Co. (CCDC). It is a platform built by the CCDC to provide a reliable set of pricing benchmarks for financial markets based on its unique expertise and neutrality as a central security depository. CBPC offers the most comprehensive RMB bond valuations and risk analytics available in the Chinese fixed income markets. These metrics have become key references for the implementation of fiscal and monetary policies, and they can have wide applications for market institutions. The CBPC provides ChinaBond Valuations for all RMB bonds in the markets, totaling approximately RMB 146 trillion. At the end of 2022, ChinaBond Yield Curves were used as reference rates for bonds of more than RMB 4.67 trillion, accounting for 95.85% of bonds that used market-based rates as reference rates and 100% of commercial bank perpetual bonds.

ChinaBond Pricing Products maintain rigorous quality control. Since 2019, the CBPC has continuously published reports on the Pricing Products' compliance with IOSCO Principles for Financial Benchmarks. The Next-Generation System Construction Project of ChinaBond Pricing Products were recognized at the 2021 Financial Technology Development Awards from the People's Bank of China.

6. Why is China’s bond market relevant to international investors?

CBPC: China’s bond market is the second-largest bond market in the world, at around USD 17 trillion, and it is also one of the fastest-growing bond markets globally. Moreover, China’s bond market still has substantial potential to grow given the size of the Chinese economy relative to that of Japan, the U.S., Hong Kong, and Singapore.

China’s bond market has attracted increasing interest from global investors, largely for the following reasons: Overseas investors have growing confidence and expectations of continuous, long-term growth in the Chinese economy and, therefore, RMB-denominated assets. Moreover, from a near-term perspective, given the country’s monetary policy cycle and interest rate adjustments differ from those of other developed and emerging economies, the distinct performance of China’s bond market make the segment a potential source of diversification. When contrasted with the U.S. Federal Reserve’s sharp pace of raising interest rates since 2022, the moderate monetary conditions of RMB-denominated assets could offer global investors with steadier and more predictable returns.

7. How have the regulations and accessibility to China’s onshore bonds changed over the years for international investors?

CBPC: Since the formation of the Qualified Foreign Institutional Investor program in 2002, China's financial markets have continued to open up and more schemes have been developed to facilitate the participation from international investors. The China Inter-Bank Market’s Direct and Bond Connect programs were launched in 2016 and 2017, respectively, to enable international investors to trade Chinese onshore bonds directly through the Bond Settlement Agent and the Hong Kong Central Moneymarkets Unit. Since their creation, more markets and product varieties have been made accessible to overseas investors.

Chinese onshore bonds have also become more liquid and more recognized assets since China’s government bonds started to be included in major bond indices in 2019. As of June 2023, over 1,100 global institutions from more than 60 countries, including various central banks, have entered China’s onshore interbank bond market and purchased Chinese onshore bonds worth nearly a net total of USD 79 billion in the first half of the year. Going forward, we expect China’s bond market will continue to provide a more friendly and convenient investment environment for domestic and international investors, supporting the construction of a high-level opening-up pattern adapted to the requirements of high-quality development, and improving the international competitiveness of China’s financial market.

General Disclaimer

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. S&P Dow Jones Indices is not an investment adviser, commodity trading advisor, commodity pool operator, broker dealer, fiduciary, promoter" (as defined in the Investment Company Act of 1940, as amended), "expert" as enumerated within 15 U.S.C. § 77k(a) or tax advisor. Inclusion of a security, commodity, crypto currency or other asset within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, commodity, crypto currency or other asset, nor is it considered to be investment advice or commodity trading advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses, and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.